Journal of Wine Economics (2023), **18,** 286–294
doi:10.1017/jwe.2023.24

CAMBRIDGE UNIVERSITY PRESS

ARTICLE

Sour grapes and sweet harmony: Historicizing collective action problems in the South African wine industry

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Abstract
The article addresses how merchants and wine producers interacted while oscillating between competition and collaboration in their internal relations. Spanning a period of more than a century, it addresses three chronological periods: 1900–1940, 1940–1994, and 1994 to the present. In the first, producers were able to forge a common front against the merchants in the shape of the Koöperatieve Wynbouwers Vereniging van Suid-Afrika, which was granted devolved regulatory powers over distilling wine in 1924 and then all wine in 1940. In the second, the antagonism between good and distilling producers was sublimated at a time of relative prosperity, while the merchants engaged in fierce competition. In the final phase, the regulatory system imploded while the export market re-emerged. Quality producers found common ground in appealing to terroir, whereas marginal producers supplied merchants and supermarkets with low-priced bulk wines.

Keywords: competition; co-operation; merchants; terroir; Wine farmers

JEL classifications: D40; D71; D73; F54; H80

I. Introduction

In the global history of wine, the clash of interests between merchants and *vignerons* has been a recurring theme, especially in France. There, the *négociants* were more than just merchants because they also matured and blended the wines that entered the market. The perception that merchants and large producers were engaged in the systematic adulteration of wines lay behind highly organized rural protest movements that shook Champagne and the Midi in the first decade of the 20th century (Frader, 1991; Guy, 2003). In South Africa, some of the same tensions were apparent, although there were also significant differences. Most notably, there was nothing comparable to the great Champagne houses, while the semi-bonded Coloured workers were excluded from the ranks of small farmers. But in a familiar manner, the merchants in Cape Town stood accused of attempting to rig the market in their favor at the expense of the mass of small producers.

In this article, I seek to understand the collective action problems that confronted both the merchants and the primary producers—that is, wine farmers and grape producers—over the past century. The wine market was highly volatile, and there was a tendency for less viable merchants to be taken over by larger ones after each revolution in the business cycle. Among the producers, there was always a temptation for individuals to cut deals with merchants who might be prepared to offer more money for their grapes or their wine. It is these tensions that I seek to explore in what follows. I do so by mapping out the constellation of interests over three broad chronological periods, distilling some of the lessons from a larger study (Nugent, 2023).

II. Phase 1: Merchants, farmers, and the matter of a mountain, c.1900–1940

The Cape wine industry was in a parlous state in 1900. Most farmers were heavily indebted, in large part because they had been forced to bear the cost of replanting vineyards after phylloxera. Few farmers had the financial wherewithal to accumulate land, resulting in a multiplicity of economically marginal wine grape farms. By contrast, there had been consolidation among the wine merchants, which continued apace through the 20th century. Merchants stood accused of trying to control the supply of wine and the points of sale—that is, bottle stores and hotels—thereby enabling them to dictate producer and consumer prices in equal measure.

In April 1909, wine farmers scored a first for collective action when an estimated 3,000 demonstrators took to the streets of Cape Town and forced the Prime Minister, John X Merriman (himself a wine farmer), to listen to their grievances. The main demands were for a repeal of the excise duty and for the easing of restrictions on the sale of wine to the Black majority that resulted from two decades of effective campaigning by the temperance movement (Nugent, 2011). Merriman was reluctant to intervene, but he solicited expert advice about the feasibility of freeing up access to "light wines" and agreed to appoint a Commission of Enquiry. The Blyth report subsequently vindicated the argument in favor of easing access to light wines in order to assist small producers.[1] The Commission found abundant evidence of financial distress among the wine farmers but believed that the underlying problem of oversupply was likely to correct itself without the need for government intervention. What the Commission did, however, was to confirm the reach of the merchants, indicating that "fully 70 per cent of licensed houses (exclusive of bottle stores) are tied or controlled by breweries or wholesale wine and spirit merchants."[2]

Given the reluctance of the government to assist directly, an initiative to organize the farmers culminated in the formation of the Koöperatieve Wynbouwers Vereniging van Suid-Afrika (henceforth KWV) in 1917/1918. The merchants actually saw some merit in an arrangement that would create stability. Hence, the KWV and the merchants were

[1]Western Cape Archives (WCA) AGR 498 C.67 "Cape Wine Commission and Lord Blyth's Report on Cape Wine Industry" (1909).

[2]WCA AMPT PUBS C/1/2/1/149 Annexures, "Report into the Economic Condition of Wine Districts" (1909).

able to sustain a collective agreement between 1917 and 1920. A minimum price was set, but with a pro-rata deduction in what was paid to the farmers based on what was estimated to be surplus to the trade (Joelson, 1946, p. 92). However, in 1920, rising demand led several merchants to break ranks. As farmers then boosted production, there was a sudden glut, the market crashed, and many leading merchants went out of business, resulting in further consolidation. This was enough to persuade the KWV and a new corporation of merchants of the wisdom of stabilizing the market. There was a return to agreed minimum prices for the next two years, with the KWV removing and disposing of the surplus. Between 1921 and 1923, no less than 27.9% of total wine production, for which no use could be found, was actually destroyed (Union of South Africa, 1937, p. 9).

However, the arrangement did not last long, with one of the leading merchants, Sedgwick & Co., breaking away in 1922, even if the rest held firm. But among the producers of "good" wine—that is, wine intended for drinking rather than distillation—there was discontent: farmers in Constantia insisted that the surplus arrangements should not apply to "good wine" and successfully took the KWV to court over the issue (Van Zyl, 1993, pp. 36–37). Faced with the unraveling of the entire arrangement, the KWV asked the government for statutory control, and in particular control over minimum pricing. Despite accepting the validity of many of the criticisms of the KWV, the Smuts government proceeded with the necessary legislation, albeit tempered with concessions to the critics. Statutory control would only apply to distilling wine, and while the merchants were forced to accept minimum pricing, the KWV would refrain from entering the retail trade. The KWV had managed to secure a coup of sorts. By contrast, it was not able to free up access to wine. When the National-Labour Pact government, which had defeated Smuts in the 1924 elections, addressed the issue four years later, it was forced into a retreat by the South African Temperance Alliance (SATA). The 1928 Liquor Act went further and debarred Blacks from purchasing wine and spirits across South Africa and only protected the right of Coloureds to consume in the Cape Province (Nugent, 2011, p. 354).

Despite these inauspicious beginnings, the industry entered a period of relative stability over the next decade. A new grouping, calling itself the Quality Wine Producers Association, which mostly represented farmers in Constantia and Stellenbosch, was established to promote the interests of those who wished to raise the bar. The KWV itself made a conscious effort to assist particular farmers in planting better varietals and improving the quality of their wine. Ironically, the onset of the Great Depression proved a boost to quality producers because it led to a partial reintroduction of imperial preferences. The unlikely optimism of the early 1930s was built on the perception that wine farmers no longer needed to be constrained by the limits of the domestic market. It was embodied in a glossy publication, *The Wine Book of South Africa* (Anon, 1936), which was timed to coincide with the Empire Exhibition in Johannesburg in 1936.

At this point, a clear rift emerged not just between the interests of distilling and "good wine" producers but also between those farming in the historic farming districts of Constantia, Stellenbosch, Paarl, and Wellington, and those operating *anderkant die berg*—that is, the arid Worcester and Robertson districts, which could be irrigated from the Brandvlei Dam, constructed in 1922. The number of new vines planted *anderkant die berg* soared along with the total output. As the oversupply of wine returned with a vengeance, the KWV was left to deal with the realities of a mounting surplus. At the same time, the price of "good wine" on the domestic market fell, in large part because of the impact of the Depression on disposable incomes. In 1932, the KWV was engaged in a bitter internal struggle over proposals to restrict new plantings *anderkant die berg*. The Wine Commission pointed to the scale of the problem in 1937, demonstrating that there had been a doubling of production in the ten years since 1924 (Union of South Africa, 1937, p. 12). The KWV came up with a counter-intuitive solution to the problem, asking that its powers be increased and extended to "good wine" because prices for the latter were determined by the overall supply of wine on the domestic market. For a second time, Smuts brought the matter to Parliament. The proposed legislation was opposed by those speaking for the merchants and the quality producers. The latter blamed the KWV for having created the problem in the first place by not acting to curb the relentless expansion of new plantings. The KWV was also accused of competing with the quality producers in export markets for fortified sweet wine by exploiting its access to cheap spirits and of entering the market for dry red wines. In the end, the outbreak of war led the government to conclude that the least risky option was to extend minimum pricing and surplus disposal to cover "good wine," but also to empower the KWV to establish production quotas. With effect from 1940, therefore, all wine was subject to statutory control.

III. Phase 2: 1940–1994–Merchants, farmers, and innovation

In the second phase, the challenge for the KWV was to sublimate the underlying tensions between different categories of farmers. Because the directors were elected by quota holders, smaller farmers dominated voting, hence the KWV Board. Nonetheless, the executive sought to guide and cajole the farmers away from mass production and toward better-quality grapes and wine. At the same time, the KWV sought to make full use of its new regulatory powers. On the one hand, it established a quota for each individual farm, with the proviso that wine needed to have been produced there in the past. As the market expanded, so the thinking went, larger quotas could be rolled out. On the other hand, minimum prices were set for distilling and good wine, intended to afford a minimum level of security for the different categories of farmers. The merchants were required to abide by minimum prices, although they were permitted to appeal to the Minister of Agriculture if these were prohibitive.

In the 1950s, tensions eased as an economic boom led white consumers to embrace wine drinking, associated with the white wine revolution, in which cool fermentation and the introduction of stainless-steel tanks enabled higher-quality wines to be produced on an industrial scale. Among the merchant companies, Stellenbosch Farmers' Winery (SFW) took the lead, working closely with individual producers of good wine to improve the quality of wine bottled under its own labels. At the same time, there was a proliferation of new co-operatives that, with easy access to bank credit, could afford to purchase the necessary cellar equipment. Hence, many of the marginal producers supplied their grapes to the local co-operative, which in turn supplied wine to the merchant-manufacturers at the minimum price.

In the early 1970s, consumers in search of novelty increasingly turned to red wines. In Stellenbosch, some farmers decided to strike out independently and bottle and market their own products. For others, it became more attractive to strike a new deal with the merchant-manufacturers. For example, the decision of the Oude Meester/Distillers group to create the Bergkelder facility made it possible for the company to establish sweetheart relationships with a small number of independent producers. The latter were assisted with access to better cultivars and advice on production methods. They surrendered their finished wines for maturation in oak barrels. The resulting wine was bottled and marketed by Distillers but with the name of the producer on the label.

During the times of relative prosperity from the 1950s to the early 1970s, the KWV system seemed to satisfy most of the constituencies. The smaller growers had a guaranteed market for their grapes and a decent price for what they delivered to the local co-operative. The emerging cohort of quality producers could probe the demand for premium wines either independently or in league with the merchants.

During the 1970s and 1980s, there was evidence of both co-operation and competition between and among farmers and merchants. In the mid-1970s, SFW was owned by South African Breweries (SAB) and fought a bitter "beer war" with Rembrandt/Distillers (Mager, 2010, pp. 28–46). The peace agreement left SAB with a monopoly in beer, while SFW, Distillers, and KWV agreed to come under the umbrella of a single entity, Cape Wine and Distillers. Notionally, the end of competition enabled the merchants to concentrate on their shared interest in selling wine (the end of racialized prohibition in 1962 had been seized on by SAB, but in principle, there was also a large Black market for wine). In reality, the merchants actively competed with each other to launch new product lines and corner particular segments of the market.

Tensions also arose among the quality producers based on the different strategies they adopted. The decision of independent producers to launch the Stellenbosch Wine Route in 1971 pointed to shared aspirations to use winery visits as a means of attracting new customers. This enabled farmers to compensate for their lack of size. The success led to the creation of new routes in which even the co-operatives participated. This was facilitated by the introduction of the Wine of Origin (WO) system in 1973, which made it possible for producers to rally around a defined territorial unit. At the same time, the experience of the Cape Estate Wine Producers Association (CEWPA) also pointed to some underlying contradictions. At its establishment, CEWPA was based on the notion that enlightened consumers would react positively to the exclusivity of wine that originated from a single designated estate. For the purists, the grapes ought to be grown and the wine bottled on the estate. However, some estates were selling their wine to be matured and bottled off the estate by Bergkelder. This became acutely contentious, and with growing public confusion about what constituted an estate, interest in CEWPA waned. Some leading producers de-listed as estates on the basis that this would give them greater freedom of movement to buy in grapes. In the end, a more restrictive definition of "estate wine" was finally accepted, but by this point, most of the interest in the estate concept had waned.

IV. Phase 3: Deregulation and the pursuit of terroir

During the height of the KWV system, when the market was relatively buoyant, there seemed to be just enough on the table to reconcile all the core constituencies. But by the

Table 1. Distilling pool and declared surplus, 1970–1987

Year	Distilling wine pool, hectoliters at 10% alcohol by volume	Declared surplus as % of distilling wine pool supplies
1970	2,217,760	20.0
1975	3,365,569	22.0
1980	4,523,394	39.1
1984	4,679,790	51.0
1987	3,964,229	33.6

Source: KWV (1988, table 2.4.6, p. 11).

mid-1980s, the consensus unraveled as the surplus grew (see Table 1), largely because the gap between the minimum prices for distilling and "good wine" was insufficiently wide to encourage lower production of higher-quality wines. In a race to the bottom, the co-operatives began offloading cheap wine in minimalist packaging at below the minimum price—exploiting a loophole in the law. This undercut the business of merchants like SFW, whose profits from wine tumbled. Aspiring producers of premium wines were unhappy with the rigidities of the quota system that prevented them from planting grapes in cool climate areas. Leading farmers, along with the merchants, also resorted to smuggling vines in response to the slowness of the certification process for new planting material—as came to light in the Chardonnay scandal of 1985/1986.

When the KWV system imploded in the mid-1990s, not many shed a tear, although smaller producers harbored understandable concerns about what deregulation of the wine sector would mean for them.

After the turn of the millennium, the landscape of production and marketing underwent a radical transformation (see Table 2). Some of the co-operatives folded, whereas others were converted into "producer cellars" that looked more like private companies. The re-entry of South Africa into the global market was accompanied by a tripling of the number of "producing wholesalers" catering largely to the overseas market. The return of the export market offered a landline to many producers, helped in part by the possibility of Fairtrade accreditation (Niklas, Storchmann, and Vink, 2017; Back et al., 2019). However, the downside was a steep increase in the volume of wines shipped in bulk. Indeed, in 2018, no less than 60.5% of wine exports by volume were in bulk rather than a packaged format (SAWIS, various years, Nr. 43, table 8.2, p. 22). Between 2000 and 2008, there was also a proliferation of private cellars, although this fell back after the global downturn in 2008. Again, producers struggled to scale the higher price points, which had implications for overall profitability. This was largely because of their weak bargaining power, most notably with respect to the powerful international and local supermarket chains.

Deregulation has led to relentless experimentation, most notably with respect to cultivars and branding, but also to increased competition for market share. A common strategy for private cellars is to produce premium wines from their own grapes and then source grapes from elsewhere in order to develop second and third labels. The producer cellars have done something similar, often buying some grapes from their shareholders and purchasing others from further afield. The WO system has proved flexible enough

Table 2. Number of cellars crushing grapes, 2000–2020

Producer type	2000	2008	2020
Producer cellars/co-operatives	69	58	45
Private cellars	277	504	457
Producing wholesalers	9	23	27
Total	355	585	529

Source: SAWIS (various years).

to enable producers to differentiate their products according to the origin of the grapes and to label the different wines accordingly.

Producers have also sought to differentiate themselves through two strategies. The first has involved entering competitions, both international and domestic, with a view to winning an award that can then be emblazoned on the bottle and trumpeted on the website. The second has been to improve the score for wines listed in the *Platter's South African Wine Guide*. Whereas competitions tend to turn on unsighted tastings, Platter's scores are sighted and entail some effort to understand what the winemaker is seeking to achieve. A 4½* or 5* score is likely to lead to a consumer run on the wine, whereas a 4* or less may lead to difficulties in finding a buyer.

Perhaps the most striking development since the turn of the millennium has been the belated embrace of the concept of terroir, embedded within the flexible WO system. However, this has played out differently across the districts, as can be illustrated with reference to the Hemel-en-Aarde Valley and the Swartland.

In Hemel-en-Aarde, there has been a conscious effort to cement a reputation for excellence based on the classic Burgundian grapes, Pinot Noir and Chardonnay. Tim Hamilton Russell was the first to identify the valley as a cool climate zone that was ideally suited for these cultivars in the 1980s.[3] At the time, there were almost no quotas available, but since deregulation, close attention to the specificities of terroir led to the breaking of the Walker Bay district into two wards, namely Hemel-en-Aarde Valley and Upper Hemel-en-Aarde Valley, in 2006. Three years later, Hemel-en-Aarde Ridge was added. This sub-division derives logically from the perception that there are micro-variations of terroir that lead to different taste profiles. A strong collective identity is also apparent. The Hemel-en-Aarde Wine Growers Association hosts an annual Pinot Noir celebration, while the Hermanus Wine and Food Festival provides a focus for all the producers.[4]

In the Swartland, an even stronger sense of collective identity has taken root in the past two decades, with a younger cohort of farmers moving in and, mostly lacking vines of their own, sourcing the best grapes. With time, some have acquired their own vines and have worked with grape growers to expand plantings of the most desirable cultivars. A particular innovation was the creation of the Swartland Independent Producers (SIP), whose membership required adherence to a set of rules and proscriptions. To qualify, the wine was required to be certified as "Wine of Origin Swartland"

[3]Interview with Tim Hamilton Russell, Hermanus, August 29, 2006.

[4]Interview with Bevan and Gordon Newton Johnson, Hemel-en-Aarde Valley, August 20, 2019.

and entirely "vinified, matured and bottled in the Swartland" from grapes grown there.[5] A commitment to minimal intervention farming was also written into the regulations, and only cultivars on the approved list could be planted, concentrating on the cultivars of the Southern Rhône, Spain, and Portugal in addition to Pinotage. A particular concern was selecting varietals that are drought-resistant while being conducive to quality. The leading lights in SIP were longstanding friends and treated the upliftment of the reputation of the Swartland as a shared mission. The Swartland independents have focused on a broad palette of cultivars, which they have sought a match for in terms of temperature, aspect, and soil type.[6]

Finally, one of the most successful examples of pulling together has been the Pinotage Association, whose membership spans all the districts. Much of the credit for improving the image of South Africa's only real signature grape goes to the Association, which has united enthusiasts around a mission to find the best expressions of the cultivar.[7] The Association has been particularly successful at promoting improved clones and developing a set of shared standards. The success of the Pinotage Top 10 competition in championing excellence is a reminder that wine competitions can serve to cement a sense of common purpose.

V. Conclusion

In this paper, I have deployed broad historical brushstrokes to capture some of the complexities of collective action among producers and merchants over the course of more than a century.

In the first phase, a relatively small number of merchants competed to control the wine trade. They were able to dictate prices to the grape farmers, who were typically small and in a weak bargaining position, and to tie up the points of sale. The KWV was the culmination of efforts by farmers to counter this market power, but it created internal divisions between the producers of "good wine" and the bulk of the grape farmers, especially those *anderkant die berg*.

In the second period, the regulatory system was extended to "good wine" as well. The "good wine" farmers reconciled themselves to the KWV system during the ensuing two decades of high demand resulting from shifting consumer tastes and the ending of racialized prohibition. However, the honeymoon was over by the mid-1980s, and both the aspiring quality producers and the merchants blamed poor KWV stewardship for the rising surpluses and bureaucratic obtuseness.

The third period was shaped by the implosion of regulation in the mid-1990s and the return to a largely unregulated market. The industry was ultimately saved by the renewed ability to export wines, which was seized with both hands by a growing number of independent cellars and a new breed of producing wholesalers. However, a large proportion of this wine consisted of bulk exports, while even the wine that was sold

[5] Swartland Independent Producers, "The core elements of a regional wine," https://swartlandindependent.co.za/values/ (accessed August 3, 2023).

[6] Interview with Eben Sadie, Malmesbury, August 21, 2019.

[7] Interview with Beyers Truter, Stellenbosch, May 11, 2023.

in bottles fetched relatively low prices. Moreover, the domestic wine market remained stagnant.

Under the new dispensation, producers competed for attention by going after scores and awards and by more effective levels of co-operation. Indeed, the leading innovators have often been ready to share knowledge on the basis that incremental improvements in viticulture and winemaking ultimately redound to the benefit of all. This has helped to mitigate some of the fragmentation that is a feature of the South African wine landscape. The vast majority of private cellars are small by international standards and therefore find themselves in a weak bargaining position vis-à-vis supermarkets. They also lack the financial power of the merchants against whom they compete for grapes and shelf space. Even before COVID-19 struck, many ordinary producers were struggling on the margins of profitability.

Acknowledgments. I would like to thank the editor and an anonymous reviewer for their valuable suggestions. This article builds on a paper that was delivered at the AAWE conference in Gordon's Bay/Stellenbosch in July 2023.

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Cite this article: Nugent, P. (2023). Sour grapes and sweet harmony: Historicizing collective action problems in the South African wine industry. *Journal of Wine Economics* 18(4), 286–294. https://doi.org/10.1017/jwe.2023.24